



DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
1000 NAVY PENTAGON
WASHINGTON, DC 20350-1000

SECNAVINST 7320.10
N41
1 August 2001

SECNAV INSTRUCTION 7320.10

From: Secretary of the Navy

Subj: DEPARTMENT OF THE NAVY (DON) PERSONAL PROPERTY POLICIES AND PROCEDURES

Ref: (a) Department of Defense (DoD) Financial Management Regulation (FMR)
DoD 7000.14-R, Volume 4, Chapter 6

Encl: (1) DON Personal Property Policies and Procedures

1. Purpose. To establish DON policies and procedures for personal property management as delineated in enclosure (1) that meet financial accounting and accountability requirements established by reference (a), the Chief Financial Officer's Act of 1990, Statements of Federal Financial Accounting Standards, and applicable Department of Defense (DoD) guidance.

2. Scope.

a. Personnel assigned responsibility for the custody, accounting and disposition of general personal property are required to comply with the provisions of this instruction.

b. Commanders/commanding generals/commanding officers/directors/officers in charge (hereafter referred to as Commander(s)) at DON activities may issue supplementary instructions when necessary to address the specific/unique requirements of their organizations.

3. Takes Precedence Over. This document takes precedence over: DFAS-CL Manual Volume 3, Chapter 6; and the U.S. Marine Corps (USMC)'s Garrison Property Policy Manual (MCO P10150.1) and Consumer-Level Supply Policy Manual (MCO P4400.150E).

4. Personal Property Defined and Classified. Personal Property (sometimes referred to as Garrison Property) is defined as those items used, but not consumed, to produce goods or services in support of DON's mission. Personal Property includes: office equipment, industrial plant equipment, vehicles, material handling equipment, automated data processing (ADP) equipment, government furnished equipment (GFE), and other types of assets including leased assets. Personal Property does not include: inventory items (e.g., items intended for sale), operating materials and supplies, real property (i.e., land, buildings and structures), ordnance, weapons, weapons systems (e.g., naval vessels, service craft, aircraft, etc.) or items of historical nature. Personal property is classified as: capitalized, minor, pilferable, sub-minor, government personal property in the possession of contractors, and leased personal property. Property in any of these categories may be sensitive or classified in nature.

a. Capitalized Personal Property. An asset with a recorded cost equal to or greater than the capitalization threshold established by DoD that meets all capitalization criteria. Capitalization criteria are established in

reference (a). Capitalized assets are depreciated based on the asset's useful life and reported on DoD's annual financial statements.

b. Minor Personal Property. An asset with a recorded cost greater than the DoD accountability threshold, but less than the capitalization threshold.

c. Pilferable Personal Property. An asset that is portable, can be easily converted to personal use, is critical to the activity's business/mission, and is hard to repair or replace. No dollar value threshold is specified.

d. Sub-Minor Personal Property. An asset that is less than or equal to the DoD accountability threshold that does not meet the criteria for pilferable, classified, or sensitive. There are no financial reporting requirements for this category of personal property and no mandated accountability requirements except those established at the activity level.

e. Government Personal Property in the Possession of Contractors. There are two types of property in this category: personal property either acquired by the Federal Government (Government Furnished Equipment (GFE)) or property acquired by the contractor (Contractor-Acquired) that is used to complete a Government-sanctioned activity.

f. Leased Personal Property. An asset that is leased. Leases are categorized as either capital or operating. Reference (a) establishes criteria for lease types.

5. Discussion. All capital, minor, pilferable and GFE assets plus lease agreements for assets (in which the Net Present Value of the total minimum lease payments) are greater than the DoD accountability threshold shall be recorded and tracked in a compliant personal property system. Personal property assets that are considered classified/sensitive in nature shall be recorded in an approved secure property system or recorded in a non-secure system in such a way that national security is not compromised. Contractor-acquired personal property shall be recorded and tracked in a compliant personal property system upon its transfer to DoD. The personal property system shall be used in conjunction with the procedures, documentation and management controls outlined in this instruction to ensure accurate financial reporting and accountability of government assets.

6. Policy Updates. These policies and procedures shall be reviewed annually and updated as necessary by the Assistant Secretary of the Navy (Financial Management and Comptroller) [ASN(FM&C)], the Chief of Naval Operations (N41), and the Commandant of the Marine Corps (LFS).

7. Responsibilities. The following responsibilities are assigned:

a. Assistant Secretary of the Navy (Financial Management and Comptroller). Responsible for establishing financial policies and procedures for general personal property financial management and reporting within DON.

b. Chief of Naval Operations/Commandant of the Marine Corps. Responsible for establishing policies and procedures relating to personal property management and accountability, as well as the implementation and administration of personal property policies and procedures to ensure proper management control and safekeeping of DON's assets.

c. Major Claimants/Activities. Major Claimant activities are responsible for complying with these policies and procedures and for providing oversight for personal property management within their claimancies including: assurance that physical counts (i.e., inventories) are conducted properly/as required, the claimancy personal property database data is accurate, asset accountability is maintained, and financial reporting of personal property is accurate.

8. Action. This instruction is mandatory for use at all shore-based DON activities. For additional guidance, USMC personnel may refer to the Garrison Personal Property Manual (MCO P10150.1).

9. Reports. The reporting requirements contained in this instruction are exempt from reports control per SECNAVINST 5214.2B.

10. Forms. The following forms are referenced in enclosure (1), all of which can be found at the following web address: <http://web1.whs.osd.mil/ICDHOME/DDEFORMS.HTM>. Note: The dates following the forms below are the most recent versions of the forms as of March 9, 2001:

- a. DD Form 200 - Financial Liability Investigation of Property Loss - October 1999
- b. DD Form 250 - Materials and Receiving Report - August 2000
- c. DD Form 1149 - Requisition and Invoice/Shipping Document - April 2000
- d. DD Form 1155 - Order for Supplies or Services - January 1998
- e. DD Form 1348-1A - Issue Release/Receipt Document - July 1991

Gordon R. England

Distribution:

SNDL Part 2 (Shore Activities of the U.S. Navy)
MARCORPS PCN 71000000000, 71000000100

Table of Contents

1. OVERVIEW_____	3
2. PERSONAL PROPERTY POLICY_____	3
a. Personal Property Defined_____	3
b. Categories of Personal Property_____	3
c. Accountability Requirements for Personal Property_____	4
d. Financial Reporting Requirements for Personal Property_____	5
3. REQUIRED ROLES AND RESPONSIBILITIES_____	5
a. Commander_____	5
b. Personal Property Manager (PPM)_____	5
c. Responsible Officers (RO)/Custodians_____	5
4. MANAGEMENT CONTROLS_____	5
a. Management Control Objectives_____	5
b. Responsibilities_____	6
5. DOCUMENTATION REQUIREMENTS_____	7
a. Required Documentation_____	7
b. Retention Requirements_____	8
c. Missing Documentation_____	9
6. FINANCIAL TERMINOLOGY AND REPORTING REQUIREMENTS_____	10
a. Cost Definitions_____	10
b. Depreciation Definitions and Reporting Requirements _____	11
7. LOGISTICS INFORMATION_____	13
a. Receiving_____	13
b. Bar Coding_____	13
c. Physical Inventory (Counting Requirements) of Assets_____	14
d. Physical Inventory Frequency_____	14
e. Physical Inventory Documentation_____	14
f. Physical Inventory Preparation_____	15
g. Conducting the Physical Inventory_____	16
h. Physical Inventory Reconciliation_____	17
8. PERSONAL PROPERTY END-ITEM INCREASES_____	18
a. General Criteria_____	18
b. Requisitioned/Purchased Personal Property_____	18
c. Transferred-In Personal Property_____	18
d. Pushed/Sponsor-Owned Personal Property_____	19
e. Loaned Personal Property_____	20
f. Constructed Personal Property_____	20
g. Donated and/or Exchanged Personal Property_____	21
h. Foreign Government Provided Equipment_____	21
i. Seized/Forfeited Personal Property_____	22
j. Base Realignment and Closure (BRAC) Personal Property_____	22
k. Improvements_____	22
l. Bulk Purchases_____	23
m. Leases_____	23
9. PERSONAL PROPERTY END-ITEM DECREASES_____	25
a. General Criteria_____	25
b. Damaged, Excess, Impaired, or Obsolete Personal Property _____	25
c. Transferred-Out Personal Property_____	25

d. Sales of Personal Property	26
e. Disposals	26

Appendix A - Acronyms

Appendix B - Glossary

Appendix C - Similar Assets/Estimated FMV Worksheet

Appendix D - Estimated Residual Value Worksheet

Appendix E - Lease Determination Worksheet

Appendix F - Data Element Worksheet

PROPERTY POLICIES AND PROCEDURES

1. OVERVIEW. There are four categories of property, plant, and equipment (PP&E) which have been defined for accounting and reporting purposes. These categories are (1) General PP&E, (2) National Defense PP&E, (3) Heritage Assets, and (4) Stewardship Land. General PP&E is divided into two sub-categories which are: real property (i.e., land, buildings and structures) and personal property (defined below). National Defense PP&E includes weapons, weapon systems, components of weapon systems, weapons systems support equipment (including training simulators and other training devices), support PP&E owned by DON used in the performance of military missions, and vessels held in preservation status by the Maritime Administration's National Defense Reserve Fleet. Heritage assets are recognized to be of historical or natural significance, cultural, educational, or artistic importance, or possess significant architectural characteristics, and they are usually located in museums or registered with the Naval Historical Center or the Marine Corps Museums Branch. Heritage assets are generally expected to be preserved indefinitely. Stewardship Land is land not acquired for, or in connection with General PP&E ("acquired for in connection with" is defined as land acquired with the intent to construct General PP&E and land acquired in combination with General PP&E, including not only land used as the foundation, but also adjacent land considered to be the common grounds to General PP&E). This instruction specifically addresses personal property even though, in some cases, the same accounting and accountability system may be used for several categories of assets.

2. PERSONAL PROPERTY POLICY

a. Personal Property Defined. Personal Property, a sub-category of General PP&E, includes items used to produce goods and/or services to support DON's mission. Personal Property includes: office equipment, industrial plant equipment, vehicles, material handling equipment, automated data processing (ADP) equipment, government furnished equipment (GFE), and other types of assets including leased assets. Personal Property does not include: inventories (i.e., items intended for sale) or operating materials and supplies. The terms "Class 3 and 4" Plant Property and Garrison Personal Property have been eliminated and are now collectively referred to as capitalized personal property provided they meet the capitalization criteria described below.

b. Categories of Personal Property. Personal Property consists of capitalized, minor, pilferable, sub-minor, leases, and government personal property in the possession of contractors for both the Working Capital Fund (WCF) and the General Fund. All personal property used by WCF activities in the performance of their missions shall be categorized as Personal Property, whether or not it meets the definition of any other property category.

(1) Capitalized Personal Property. Personal property that meets all of the following capitalization criteria:

(a) Has a recorded cost, book value, or when applicable, an estimated fair market value equal to or greater than the DoD capitalization threshold as stated in reference (a). WCF activities that made acquisitions prior to fiscal year 1996 shall use the capitalization threshold established at the time the personal property was acquired;

(b) Has an estimated recovery period equal to or greater than 24 months;

(c) Is not intended for sale in the ordinary course of operations; AND

(d) Has been acquired or constructed with the intention of being used or available to be used by DON in its operations.

(2) Minor Personal Property

(a) Has a recorded cost above the DoD accountability threshold and less than the DoD capitalization threshold. OR

(b) Does not meet all the capitalization criteria; AND

(c) Has a recovery period equal to or greater than 24 months.
(Note: Does not apply to sensitive/pilferable assets.)

(3) Pilferable Personal Property. Portable items that can be easily converted to personal use and have been determined by the Commander to be:

(a) Critical to fulfilling the activity's mission/business objective; AND

(b) Hard to repair or replace.

(4) Sub-Minor Personal Property. Any asset that:

(a) Has a recorded cost less than or equal to the DoD accountability threshold and is **not** determined to be pilferable. OR

(b) Has a recovery period of less than 24 months.

(5) Leased Personal Property. Personal property that is leased. Leases are categorized as either capital or operating. Reference (a) establishes criteria for classifying lease agreements.

(6) Government Personal Property in the Possession of Contractors. This type of personal property may be acquired by the Federal Government (Government Furnished Equipment (GFE)) or the contractor (Contractor-Acquired) and is used to complete a Government-sanctioned activity.

c. Accountability Requirements for Personal Property

(1) Establishment of accountability. Accountability for all capitalized, minor, pilferable, and GFE assets and asset lease agreements (in which the Net Present Value of the total minimum lease payments) greater than the accountability threshold shall be established from time of receipt by DON. Accountability for Contractor-Acquired personal property shall be established upon the asset's transfer to the DON. These personal property assets shall be recorded and tracked in a compliant personal property system approved by DON. No other personal property systems are authorized, except in the case of property that is classified/sensitive in nature that must be recorded in an approved secure property system or in a non-secure system in such a way that national security is not compromised. (Note: Management systems that are used primarily for other purposes (e.g., maintenance) may

contain some personal property asset information. In cases where this system has necessary additional functionality not resident in DON's personal property system (as determined by the Commander and certified in writing to the Major Claimant), the other system may be retained as long as both systems are reconciled at least quarterly. The documentation shall be retained at least until the next reconciliation. This management system shall not be used for financial reporting.)

(2) Termination of accountability. Personal property that has been transferred-out, sold, disposed, lost, stolen or destroyed shall be properly documented and removed from the personal property system at the time the property leaves the activity or it is determined the item no longer exists. Substantiating documentation must be retained for 36 months.

d. Financial Reporting Requirements for Personal Property. Personal property that meets or exceeds the capitalization threshold requires proper accounting (i.e., capitalization and depreciation) and is required to be reported in DON's annual financial statements. Reference (a) directs specific reporting requirements.

3. REQUIRED ROLES AND RESPONSIBILITIES

a. Commander - is overall responsible for ensuring that all command personal property is properly maintained, safeguarded, accounted for, and accurately reported. This includes the proper recording/reporting of the financial information for the personal property in the Commander's possession.

b. Personal Property Manager (PPM) - shall be designated in writing by the Commander and is responsible for implementing the policies and procedures established by this instruction, scheduling training for personal property personnel, ensuring personal property system data security and integrity, and coordinating physical inventories (counting requirements).

c. Responsible Officers (RO)/ Custodians - are responsible for ensuring the due care and safekeeping of personal property assigned to their custody or the custody of those persons reporting to them.

4. MANAGEMENT CONTROLS

a. Management Control Objectives. Personal Property Managers are required to implement the controls contained in this instruction plus additional controls as required to produce the following desired major objectives:

- (1) Accountability of assets.
- (2) Accurate financial reporting.
- (3) Personal Property System security and data integrity.
- (4) Life cycle management of Personal Property assets.
- (5) Compliance with personal property policies and procedures.

b. Responsibilities. Personal property personnel at all levels in the chain of command are responsible for implementing adequate controls to ensure management control objectives stated above are attained.

(1) Major Claimants / HQMC

(a) Establish a personal property management organization within Headquarters that provides personal property management oversight for the claimancy.

(b) Disseminate current personal property guidance and information throughout the claimancy including the latest policies, procedures, standards and mandates established by DoD, DON, Federal regulation, and/or the laws that pertain to personal property accountability and financial requirements.

(c) Verify that activities within the claimancy are performing physical inventories as required. Activities are required to submit letters to their major claimants substantiating physical inventory completion. Major claimants should monitor this process to make sure physical inventories are conducted as required.

(d) Collect/review claimancy personal property financial information on a quarterly basis for reasonableness and accuracy.

(e) Compile all personal property financial information prior to submission to ASN(FM&C)/FMO.

(f) Establish procedures to monitor usage of the claimancy personal property database (may include implementation of additional internal controls) to ensure: activities are using the mandated system, data is complete and accurate, and financial information is being reported properly.

(g) Reconcile personal property financial information from the personal property system with the general ledger account balances. Retain a copy of the summary/detailed personal property information to support the reconciliation performed for **three** years.

(2) Personal Property Managers

(a) Schedule and monitor physical inventories. For all physical inventories, ensure all discrepancies have been reconciled and documented, results have been filed in the personal property records, any adjustments have been correctly entered into the personal property system, and, for triennial physical inventory only, certification of completion is submitted to Major Claimant.

(b) Implement controls to improve personal property system data accuracy. Establish local controls and utilize various management reports to ensure data is accurate and complete.

(c) Control access to the personal property system. Ensure only authorized personnel have access to the system.

(d) Ensure compliance. Disseminate personal property system policies and procedures information and provide necessary oversight to ensure compliance with directives throughout the activity.

(e) Schedule training. Ensure all new users have been scheduled for training within 30 days of assuming duties and other users have received refresher training as needed.

(f) Establish local practices to ensure accountability is maintained. Make sure that: assets are entered into the property system and bar coded within 7 calendar days of receipt; asset custody cards are signed for all assets; personnel turnovers are monitored and changes to accountability information in the database are updated as required; important relationships have been developed with key personnel in receiving, contracting, shipping, accounting, etc.

(g) Establish auditable records. All documentation must be retained as specified in this instruction for auditor review.

(h) Practice life-cycle asset management. Implement a command personal property asset management program that: ensures proper treatment of new, transferred, excess, old, obsolete, sold, lost, stolen, or disposed assets; safeguards assets critical to business operations; identifies assets that should be replaced, modernized or added to the command physical inventory.

(i) Query the personal property database. Provide management information required by the Major Claimant, the Commander, the Comptroller, the Supply officer, or other personnel to support property management or budget related decisions.

5. DOCUMENTATION REQUIREMENTS

a. Required Documentation

(1) New Capital Acquisitions. Shall be supported by the purchase order (Form DD 1155); receiving report; vendor invoice; and other documents that capture and record ancillary costs *[USMC only: A copy of the receiving documentation for all Capitalized Property and all GME shall be forwarded to Headquarters Marine Corps (LFS).]*

(2) Capital Property transferred in or out. Shall be supported by the requisition and invoice/shipping document (Form DD 1149), and the purchase order, receiving report, vendor invoice, and other appropriate documents, as available. Copies of supporting documentation shall be retained by the transferring activity and the originals forwarded to the gaining organization.

(3) Disposed property. Shall be supported by the issue release/receipt document (Form DD 1348-1A).

(4) Documentation for special types of property

(a) Leases for equipment. Shall be supported by the lease agreement, Lease Determination Worksheet (see Appendix E, Enclosure (1)), and Data Element Worksheet (see appendix F, enclosure (1)).

(b) Donated, exchanged, found, or unsupported personal property. Shall be supported by the Similar Assets/Estimated FMV Worksheet (see appendix C, enclosure (1)).

(c) Pilferable, Sponsor-Owned/Pushed, GFE. Shall be supported by the purchase order and receiving report if the item is below the capital threshold. If the property is a capital item, then an invoice is also necessary. If the invoice cannot be located then the Similar Assets/FMV Worksheet must be completed (see appendix C, enclosure (1)).

(d) Software. Shall be supported by a copy of the site license agreement for all Commercial Off-the-Shelf (COTS) software until the software is no longer in use. For internally developed software and improvements to internally developed or COTS software, the PPM needs to retain all documentation supporting the final costs associated with producing the software.

(e) Personal property subject to litigation. Shall be supported by all related supporting documentation (i.e., litigation documents).

(f) Minor. Shall be supported by the purchase order and receiving report. These two documents will provide adequate information for entering the necessary information into the compliant personal property system.

Exhibit 1 - Summary of Personal Property Documentation and Primary Use

Documentation	Primary Use
Purchase Order (Form DD 1155)	Procurement validation
Receiving Report 1. Form DD 1155 (Box 26) 2. Form DD 1348-1A (Box 38) 3. Form DD 250 (Box 22)	Depreciation activation date
Vendor Invoice*	Acquisition cost and ancillary costs
Form DD 1149	Transfer form
Form DD 1348-1A	Disposal

* Required for capital assets

b. Retention Requirements

(1) General Documents. The PPM is responsible for ensuring all required documentation (as defined above) is retained for capitalized, minor, pilferable, GFE, and asset lease agreements from time of receipt until 36 months after the item is disposed/transferred-out/sold. In the case of items transferred to another activity, copies of supporting documentation shall be maintained on file at the originating activity and the original documents shall be forwarded to the receiving activity.

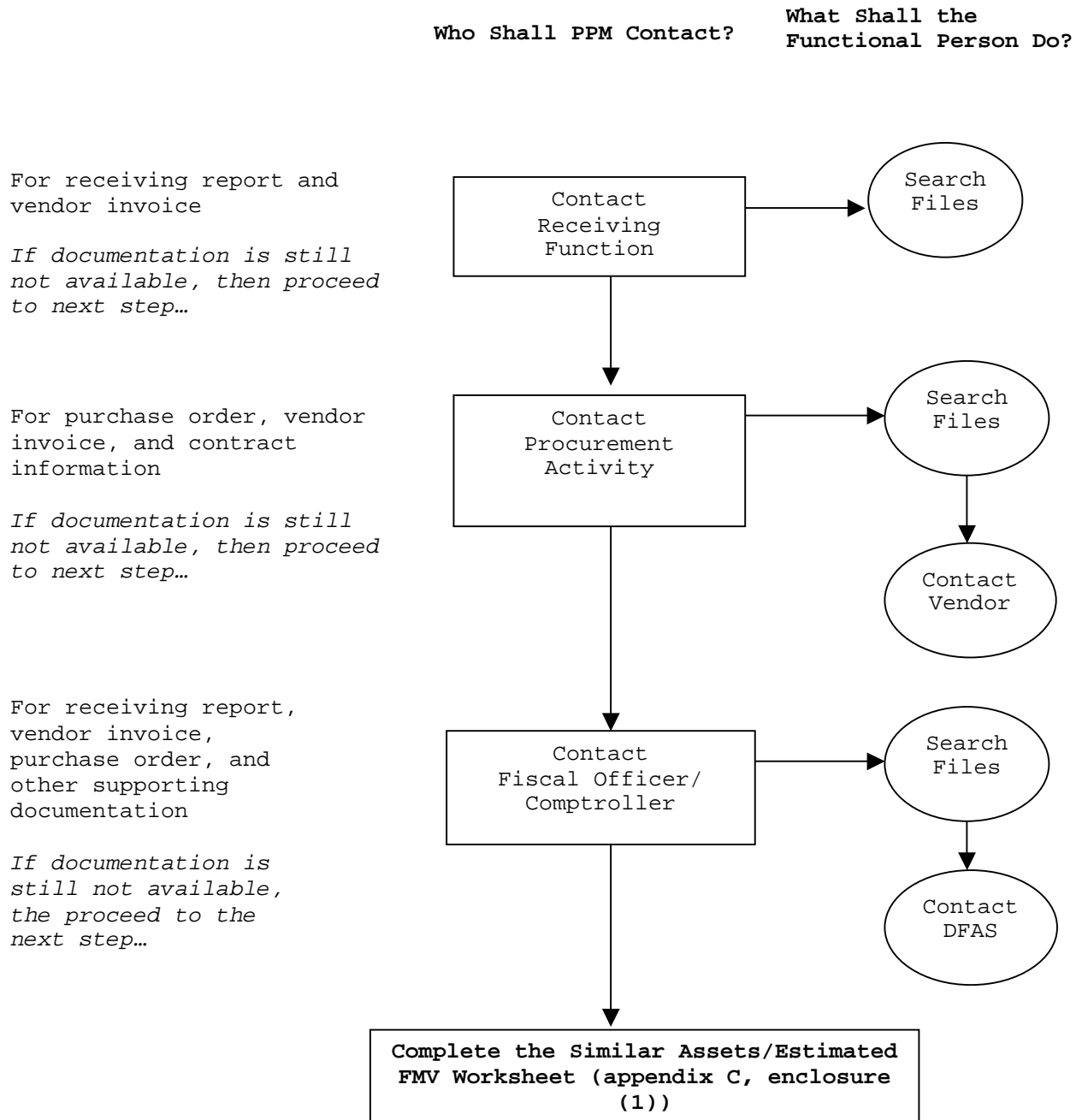
(2) Physical Inventory Documents. The PPM shall retain and file physical inventory documents along with all other personal property documents. The physical inventory documentation shall include the signed physical inventory sheets and a copy of the physical inventory detail listing that summarizes all the adjustments made (see paragraph 7e, enclosure (1)). Physical inventory documents shall be retained until the next wall-to-wall physical inventory has been conducted and reconciled.

(3) Documentation to Substantiate Adjustments. Any adjustments made to the personal property records shall be supported by applicable documentation (e.g., found items - purchase order, receiving report, Similar

Asset/Estimated FMV Worksheet (see Appendix C, Enclosure (1)); lost, stolen, missing items - Form DD 200, etc.) and filed with the general documentation.

c. Missing Documentation. If documentation is not available to support personal property records or could not be obtained for all the transactions in the personal property system, the PPM shall proceed as noted in Exhibit 2.

Exhibit 2 - Missing Documentation



6. FINANCIAL TERMINOLOGY AND REPORTING REQUIREMENTS

a. Cost Definitions

(1) Acquisition Cost. The original purchase, construction or development cost of the personal property, excluding any purchase discounts or ancillary costs. Purchase discounts lost and late payment interest expenses shall be recognized as operating expenses and not included in the cost of the asset.

(2) Recorded Cost. All amounts paid to bring the personal property to its form and location suitable for its intended use, specifically the acquisition cost plus any ancillary costs (i.e., additional costs) that are identifiable (i.e., included on the invoice) and, in management's opinion, significant. The following are examples of ancillary costs that might be included in the recorded cost:

- (a) Transportation charges to the point of initial use.
- (b) Handling and storage costs.
- (c) Labor and other direct or indirect production costs (for assets produced or constructed).
- (d) Legal and recording fees, and damage claims.
- (e) Installation costs.
- (f) Engineering, architectural, and other outside services for design, plans, specifications, and surveys (for constructed personal property).
- (g) An appropriate share of the cost of the equipment and facilities used in construction work (for constructed personal property).
- (h) Direct costs of inspection, supervision, and administration of construction contracts and construction work (for constructed personal property); AND
- (i) Material amounts of interest costs paid (for constructed personal property, not including late payment interest penalties). Note: it may be necessary to contact DFAS to determine these other ancillary costs.

(3) Recorded Cost Estimates. When source documentation is unavailable, estimates of the cost of the personal property shall be made, as well as estimates for any accumulated depreciation or amortization as follows:

- (a) Locate a similar asset (the personal property database can be used).
- (b) Determine if the assets have similar model/manufacture years.
- (c) If the previous two criteria are met, then:

1. Obtain a copy of the supporting documentation of the similar asset, attach it to the Similar Assets/Estimated FMV Worksheet (see Appendix C, enclosure (1)), and document why the assets are comparable.

2. To assign a recorded cost, review the documentation for cost information, estimated recovery period, and net estimated residual value (capitalized personal property only, see paragraph 6a(3)(c), enclosure (1)), specifications, and other pertinent information (method of acquisition, nomenclature, and description of function).

3. The estimated recorded cost may be based on (1) the recorded cost of a similar asset at the time of acquisition or (2) the recorded costs of similar assets, taking into consideration changes in the Consumer Price Index between the date the new item was acquired and the date the similar asset was acquired.

(d) If a similar asset cannot be located, determine the personal property's fair market value (FMV) from either the vendor quote, the catalog price (if the item has a National Stock Number), or the GSA schedule. Document the information on the Similar Assets/Estimated FMV Worksheet (see Appendix C, enclosure (1)).

(e) In the event that the FMV is not included within the source documents described above, and therefore still not determinable, document the justification for the estimated FMV on the Similar Assets/Estimated FMV Worksheet (see Appendix C, enclosure (1)).

b. Depreciation Definitions and Reporting Requirements

(1) Depreciation and Recovery Periods. The expected useful life over which a capitalized personal property item can provide benefit to the activity.

(2) Depreciation Methodology. Depreciation for capitalized personal property shall be calculated using the straight-line method. This methodology applies to both the General and Working Capital Funds.

(a) Depreciation shall cease to be recorded when one of the following occurs:

1. Accumulated depreciation equals the depreciable base of the capital asset (paragraph 6a(3)(b), enclosure (1)).

2. The item is disposed of/transferred out.

3. The item is identified as excess, obsolete or damaged and has been removed from service for purposes of disposal.

(b) Depreciation shall continue for personal property items temporarily removed from service. This policy is applicable to Working Capital Fund (WCF) activities and also applies to personal property under repair or modification.

(3) Depreciable Base. The depreciable base for personal property shall equal the recorded cost of the item less the net estimated residual value.

(4) Net Estimated Residual Value. The net estimated residual value is the estimated residual value **less** any estimated disposal costs. The residual value is the estimated value remaining at the end of the capitalized personal property's recovery period. Disposal costs are costs incurred to dispose of an asset.

(a) If DON activities **do NOT expect to sell** the personal property because the item is transferred to Defense Reutilization and Marketing Office (DRMO), or **the net estimated realizable value is less than 10 percent** of the recorded cost, then the PPM shall **record the residual value at zero**.

(b) If DON activities **expect to sell** the personal property, and the residual value is expected to **exceed 10 percent** of the recorded cost, the PPM is requested to estimate the residual value and disposal costs. The disposal costs shall be subtracted from the residual value. The total estimated residual value less estimated disposal costs is the Net Estimated Residual Value.

(c) All research documentation that supports the net estimated residual value and recovery period shall be attached to the Estimated Residual Value Worksheet (See appendix D, enclosure (1)).

(5) Recovery Period for Capitalized Personal Property

(a) The DoD recovery periods for DoD general depreciable assets are summarized below and further defined in reference (a).

Description of General PP&E Assets	Recovery Period
General Purpose Vehicles (Includes Heavy Duty Trucks & Buses); ADP Systems and Hardware (Computers and Peripherals); High Tech Medical Equipment; Equipment Used in Research, Development, Test and Evaluation (RDT&E); Radio and Television Broadcasting Equipment; and Software**	5 Years*
Improvements to 5-Year Recovery Period Property (Personal Property)	
All Other Equipment and Machinery, and Software**	10 Years
Improvements to 20 Year Recovery Period Property	
Vessels, Tugs, Barges and Similar Water Transportation Equipment (Non-National Defense PP&E vessels/ships), Steam (12.5K pounds per hour or more) and Electric Generation Equipment (500 Kilowatt or more), Sewers and Other Utilities (including such things as fiber optic cable)	20 Years

* A recovery period of less than 5 years is permitted based on local discretion when the acquiring DON Component is certain that the useful life of an asset is at least 2 years but less than 5 years. In such circumstances, the recovery period shall be the known useful life (2-4 years, as appropriate). The DON Component making this election must document the basis for that decision and cannot change the recovery period once depreciation begins.

** Depending on the nature of the software, recovery period may be less than 5 years, 5 years, or 10 years. The determining factor should be the actual estimated useful life of the software consistent with that used for planning the software's acquisition.

(b) Changes or revisions in the initial estimates of the recovery period shall be treated prospectively in current and future periods. This is applicable only if the activity discovers at a later date that the incorrect recovery period was used; thus, an adjustment to the proper recovery period is necessary. No changes shall be made retroactively to previously recorded depreciation.

(6) Non-capitalized Personal Property. Minor, pilferable, and sub-minor personal property shall be expensed when received and shall not be depreciated.

(7) Depreciation Activation Date. The date that depreciation starts for capitalized personal property. For new acquisitions, the date of receipt shall be used except for constructed personal property or improvements, where the date of acceptance shall be used. If the receipt date is not known, the PPM shall use either the shipping date, inspection date, or procurement date, respectively. For assets received from other DON, DOD, or other federal entities, (i.e., items transferred-in) see chart 8c(1), enclosure (1).

7. LOGISTICS INFORMATION

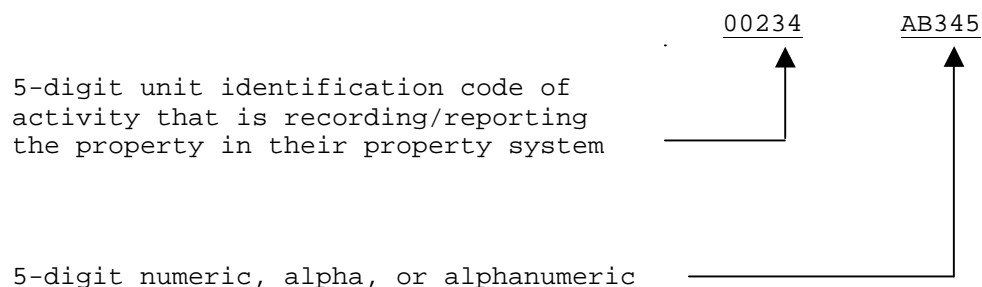
a. Receiving. The person who initially receives an asset is required to sign and date a receiving document to establish the accountability and depreciation start date for that asset. To ensure that accountability is continuously maintained for every asset, local procedures must be established to ensure new assets are recorded in a compliant personal property system within **7 calendar days of receipt**.

b. Bar Coding

(1) DON Bar Coding Policy. All personal property recorded in the personal property system shall be bar coded within **7 calendar days** of receipt. Even items that cannot be physically bar coded (e.g., satellites) should still have a bar code assigned to them.

(a) Bar codes shall be 10 digits in length. The first five digits shall be the activity's Unit Identification Code (UIC) minus the Service Code, and the next five digits shall be a unique alpha-numeric code assigned by the UIC. Marine Corps organizations shall refer to MCO P10150.1 for instructions on how to bar code property.

Exhibit 3 - Bar Code Example



(b) The PPM shall maintain a bar code control listing, which may be in a manual or electronic format. This record will be used to track and monitor bar codes issued, not issued, and reused, to ensure there is no duplication of numbers.

(c) Bar codes may be reused **36 months** after the disposed personal property item has been removed from the personal property system.

(d) When personal property is **transferred-in** from another Federal agency, the old bar code shall be immediately removed and replaced with a new bar code from the gaining activity.

(e) If an item is borrowed from (in on loan from) another Federal agency, then the original bar code shall be maintained on the personal property item to ensure that the personal property item is properly identified as a loaned item.

(f) Sponsor-owned property bar codes should reflect the UIC of the activity that has custody and uses the item not the activity that purchased it.

(2) USMC Bar Coding. Headquarters Marine Corps (HQMC) (LFS) shall provide instructions for the configuration of the last five digits of the bar code and will assign bar codes for all Garrison Mobile Equipment (GME).

c. Physical Inventory (Counting Requirements) of Assets. All physical inventories are required to include a comparison of **all** the personal property records to the physical assets (i.e., book-to-floor) and all the physical assets back to the personal property records (i.e., floor-to-book) to ensure all items are included in a compliant personal property system. Physical inventories that are not conducted in this manner are not compliant and management may require the physical inventory be performed again using correct procedures.

d. Physical Inventory Frequency. PPMs shall ensure that physical inventories are performed as follows:

(1) At least once every 3 years for: capitalized, minor, and pilferable personal property.

(2) At least annually for equipment on loan. (NDE assets tracked in the personal property system should also be inventoried on this schedule).

(3) When there is a change in the custodian.

(4) Whenever directed by the Commander. A special physical inventory may be necessary when there is evidence of forced or unlawful entry or upon the discovery of an open or an unattended storage area; **AND**

(5) As required by the Federal Acquisition Regulation (FAR) for government personal property in the possession of contractors.

e. Physical Inventory Documentation. Physical inventories shall be documented and the documentation shall be maintained, at a minimum, until the next physical inventory is completed. Documentation shall include the following:

- (1) The asset listing as of the physical inventory date.
- (2) Documentation of the physical inventory count (including evidence that book-to-floor and floor-to-book procedures were followed).
- (3) Adjustments made and the documentation supporting the resolution of adjustments.
- (4) Signatures of those who conducted the physical inventory.

f. Physical Inventory Preparation

- (1) The PPM shall:
 - (a) Initiate the physical inventory process in cooperation with the Responsible Officer (RO). However, the RO shall **NOT** be involved in conducting the physical inventory of the personal property for which he/she has responsibility. Another RO may perform physical inventories without affecting independence.
 - (b) Provide colored stickers, chalk, or some other method to mark or identify personal property as it is counted.
 - (c) Assign teams to conduct the physical inventory. Personnel assigned to the teams shall be **independent** of the Custodian or RO.
 - (d) Assign a Physical Inventory Validation Team Leader.
 - (e) Verify that every member of the physical inventory validation team obtains and reviews a copy of the Physical Inventory Procedures.
 - (f) Provide the most recent copy of the personal property database detailed listing from the personal property system to the Physical Inventory Validation Team Leader. The listing shall include, if applicable: a description of the item, the condition (i.e., degree of operability/readiness for use), the serial number, the bar code, the make, model, year, recorded cost, depreciation activation date, and the location of the item. (If the asset is mobile and its location changes, provide the custodian's name and contact information.)
- (2) The RO shall:
 - (a) Control the additions, deletions, and movement of personal property items being counted during the physical inventory process.
 - (b) Be responsible for physical inventories of assets as directed by the PPM.
 - (c) Segregate all personal property items that are not considered general personal property to avoid including them in the physical inventory count (unless they are maintained in the same property system).
- (3) The Physical Inventory Validation Team Leader shall:
 - (a) Assign individual team members to perform the physical inventory.

(b) Provide applicable sections of the physical inventory listing to the individual team members.

(c) Answer the team's questions during the physical inventory process.

(d) Ensure the Physical Inventory Validation Team is aware of all possible sites/locations where personal property could be located. Teams should look for inventory at locations during the physical inventory that may not be currently on the inventory records.

(e) Remind teams that they are required to record ALL (capitalized, minor, pilferable, GFE, and leased personal property) items in their respective inventory sites.

(f) Ensure that he/she and all team members sign the physical inventory documents before forwarding to the RO. He/she should be prepared to discuss any variances between the physical inventory worksheet and the physical inventory records with the RO.

g. Conducting the Physical Inventory. The Physical Inventory Validation Teams shall ensure the existence and validate the condition of all items on the personal property database detailed listing and confirm the accuracy of the data in the database (e.g., description of the item, serial number, bar code, make, model, manufacture year, and location). Missing/erroneous information should be annotated on the physical inventory worksheet and the database updated as required.

(1) Verification of Asset Condition. The asset condition should be assessed (e.g., operational, under repair, damaged, excess, unusable, or obsolete) and if assessed as other than fully operational, the condition should be recorded and the following actions taken:

(a) If the personal property item is determined to be unusable or obsolete, the RO shall complete the Form DD 1348-1A and forward to the PPM for disposition.

(b) If the personal property item is under repair or damaged, determine if it makes economic sense to repair the asset. If not, request the RO to initiate survey procedures using the Form DD 200.

(2) Physical Inventory of Personal Property that could not be bar coded or sighted. During the physical inventory process, the PPM shall validate all personal property that could not be bar coded due to its nature (e.g., satellites, software, telecommunications systems, etc.). The PPM shall use appropriate means to verify if the asset still exists (i.e., speak to someone who can validate the existence of the asset).

(3) Found Items. At the conclusion of the physical inventory, the inventory team shall document all items that exist but were not included on any of the inventory listings (i.e., personal property items not marked with a sticker, chalk, or other means.) Add these items to the physical inventory.

(4) Excessed Items. Personal property items held in an excess status awaiting further distribution or disposal should also be inventoried by the inventory team.

(5) Missing Items. If the personal property item is reported missing by the inventory team, a Form DD 200 should be submitted by the RO or PPM. Marine Corps organizations shall refer to the current edition of MCO 4340.1A for additional instructions on reporting missing, lost, stolen, or recovered (MLSR) property.

(6) Loaned Property. Loaned property shall be inventoried at least once a year. See paragraph 8e enclosure (1) for documentation and reporting requirements.

h. Physical Inventory Reconciliation

(1) The Physical Inventory Validation Team Leader shall:

(a) Reconcile the results of the physical inventory to the personal property records. Care must be taken to consider personal property due-ins and in-transit assets before reaching any conclusions regarding whether personal property accountability records are accurate or inaccurate.

(b) Conduct a recount and validate all items that had discrepancies during the original physical inventory count. Employees who made the initial physical inventory validation may not perform the revalidation. Discuss any variances between the physical inventory validation sheet and the physical inventory records with the RO and determine proper actions to be taken.

(c) Provide the RO with a list of all discrepancies. Obtain the RO's signature and forward to the PPM.

(2) The RO shall:

(a) Research and resolve all discrepancies within one month after the physical inventory validation.

(b) Obtain supporting documentation for any adjustments to the physical inventory listing, including valid transfer forms (Form DD 1149), donation letters, purchase orders, invoices, receiving documents (Form DD 250), and disposals (Form DD 1348-1A), and if necessary, a Similar Asset/Estimated FMV Worksheet (see Appendix C, enclosure (1)).

(c) For found items, attempt to locate documentation for the personal property item; perform research to find out where the item came from; and determine whether it belongs to the unit in whose area it was found. If the asset does belong to the unit, the PPM shall ensure that the item is bar coded in accordance with DON personal property policies and procedures and entered into the personal property system.

(d) Complete Form DD 200s for items that are missing, stolen, lost, etc. and forward via the PPM to the Commander for signature. Form DD 200s should be signed and approved by the Commander unless they are for sub-minor property that is not pilferable.

(3) The PPM shall:

(a) Review the physical inventory for completeness.

(b) Ensure all discrepancies are completely researched, resolved, and reconciled (i.e., recorded) in the personal property system, including unusual or unexpected changes to an asset's condition.

(c) Ensure all additions and deletions resulting from the physical inventory are entered into the personal property system (i.e., the records reflect the results of the inventory) and substantiated by documentation that has been signed and placed in the personal property files as required.

(d) Maintain a physical inventory file that contains required documentation (see paragraph 7e, enclosure (1)).

(e) Review, make recommendations as appropriate, and forward all Form DD 200s that are for minor, capital or pilferable personal property to the Commander for signature together with items listed below:

1. A physical inventory summary of adds and deletes.

2. A Physical Inventory Completion Letter for Commander's signature to be submitted to the major claimant/HQMC. (Wall-to-wall and triennial inventories only.) This letter should state the date the physical inventory was completed, the reason for the physical inventory (e.g., triennial) and that the physical inventory was performed in accordance with DON Policies and Procedures.

(f) Retain a copy of the signed Physical Inventory Completion Letter and the signed Form DD 200s and forward the original signed physical inventory completion letter to the Major Claimant.

8. PERSONAL PROPERTY END-ITEM INCREASES

a. General Criteria. Capital assets shall be recorded as capitalized personal property and depreciated over the estimated recovery period of the asset. Non-capital assets shall be expensed in the year of acquisition and not depreciated. Assets may be acquired through requisition, acquisition, transfer-in, pushed (sponsor owned), borrowing (in on loan), construction, donation, exchange, discovery (found items), foreign government, seized or Base Realignment and Closure.

b. Requisitioned/Purchased Personal Property. Personal property purchased or requisitioned by an activity for its own use shall be recorded in the property system if it exceeds the accountability threshold. If the property meets the capitalization criteria, it shall be recorded as capitalized personal property and depreciated over the full estimated recovery period of the asset starting on the date of receipt.

c. Transferred-In Personal Property. Transferred-in personal property represents assets that DON receives from other DON activities, other DoD activities, or other Federal agencies. Transferred-in personal property items that meet the capitalization criteria shall be recorded as capitalized personal property and depreciated over the remaining estimated recovery period of the asset.

(1) Recorded Cost and Depreciation Information

	Items received from other DON or DoD activities	Items received from other federal entities
Recorded Cost & Accumulated Depreciation	Obtained from the other DON/DoD activity	Recorded at Net Book Value (NBV) [recorded cost - accumulated depreciation]
Depreciation Activation Date	Date item was received by the original DON or DOD activity	Date item was received by the gaining activity
Depreciation Period	Remaining estimated recovery period	Remaining estimated recovery period
Supporting Documentation	Documentation to support asset's original cost, accumulated depreciation, and estimated recovery period	Documentation to support asset's NBV and remaining estimated recovery period

(a) If the acquisition information and related accumulated depreciation **are not** available, then the acquisition value shall be estimated and recorded at the item's fair market value when received. The Similar Assets/Estimated FMV Worksheet (see appendix C, enclosure (1)) shall be completed to document the estimated FMV. If the FMV of the asset meets the capitalization threshold, then the item shall be depreciated and the depreciation activation date will be the date the item was received. The accumulated depreciation shall be zero.

(b) If the acquisition information and related accumulated depreciation are available from the transferring entity, the PPM shall enter that information into the personal property system. Depreciation shall continue on capitalized personal property assets even if the transferred asset has a current NBV below the capitalization threshold.

(2) Receiving. To ensure proper accountability and financial reporting of transferred-in personal property, the PPM and receiving personnel must establish local procedures to ensure that all documentation is received, receipt date is documented, and the item is bar coded (see paragraph 7b, enclosure (1)) and entered into the personal property system within **7 calendar days**.

(3) Missing Documentation. If the original applicable source documentation (i.e., purchase order, vendor invoice, and receiving report) are not available, then a Form DD 1149 may be accepted as proper documentation, provided all applicable information (i.e., recorded cost, depreciation activation date, and recovery period) are documented on the form. For USMC, upon receipt of capitalized GME, a copy of the receiving and transfer documents shall be forwarded to HQMC (LFS).

(4) Bar Coding. Transferred-in items should be relabeled with a new bar code from the gaining activity. The old bar code should be discarded.

d. Pushed/Sponsor-Owned Personal Property. Any personal property purchased by a higher entity (such as a Major Claimant) and forwarded (or "pushed") to a lower level (such as an activity).

(1) Pushed/sponsor-owned personal property for General Fund activities shall be treated as an end item increase or transferred-in personal property.

(2) Navy WCF activities shall typically treat pushed/sponsor-owned personal property as "in on loan".

(a) Financial reporting, including expenditures and depreciation, is the responsibility of the sponsor (e.g., Major Command). The sponsor notes personal property items as "out on loan" in his/her personal property system.

(b) Navy WCF activities are responsible for accountability and performance of physical inventories for sponsor owned items. Activities should note the pushed/sponsor-owned personal property as "in on loan" in the personal property system.

e. Loaned Personal Property. Personal property shall only be loaned if not expressly prohibited by law.

(1) Documentation. The PPM shall prepare a personal property pass before loaning out personal property. The personal property pass, GSA Optional Form 7 or equivalent, shall have the name, phone number, description of the item, bar code, location of the recipient of the loaned personal property, and shall be placed in the personal property file.

(2) Management of Loaned Property. Personal property loaned to others shall be recorded in the personal property system of the loaner and separately identified as "out on loan". Personal property borrowed from another activity shall be recorded in the personal property system as "in on loan" and must be inventoried annually by the borrowing activity and verified with the lending activity that the item is "out on loan". All adjustments to the inventory listing must be supported by documentation provided by the borrowing activity.

(3) Bar Coding. To facilitate identification, the bar code shall not be removed from the loaned personal property item.

f. Constructed Personal Property. Personal property that is constructed for use in DON operations is known as constructed property.

(1) The cost of constructed personal property shall include direct and indirect costs to construct the personal property and be recorded as construction progresses. It shall be recorded in the applicable Construction-in-Progress (CIP) general ledger account until it is placed into service, at which time the accumulated balance shall be transferred to the applicable personal property general ledger account.

(2) If the asset meets the capitalization threshold, the depreciation activation date shall be the date the item is available for use (i.e., acceptance date).

(3) Documentation - Progress Certifications. The Contracting Officer or designate shall gather all incremental invoices received from the vendor and other related costs and forward the CIP costs summary worksheet summarizing all the costs incurred to date, to the PPM semiannually (March 31

and September 30). The Contracting Authority is also responsible for reconciling the costs summarized on the CIP costs summary worksheet with the supporting documentation. The PPM shall record the reconciled total cost incurred to date in the personal property system as a CIP personal property item and maintain the copies of the CIP costs summary worksheets.

(4) Completion of Construction. The Contracting Authority or designate shall forward all documentation (i.e., invoices, purchase orders, receiving reports, etc.) to the PPM upon completion of the constructed item. The contracting authority is also responsible for ensuring that all the documentation provided to the PPM is reconciled to the CIP costs' summary worksheet. The PPM shall transfer the CIP costs incurred throughout the project to a completed asset in the personal property system upon completion of the project.

g. Donated and/or Exchanged Personal Property. Personal property that DON receives from and distributes to non-Federal entities.

(1) Donated Property. The receiving activity shall record the asset at the fair market value at the time of acquisition, which should be documented in the Similar Asset/Estimated FMV Worksheet (see Appendix C, enclosure (1)). The depreciation activation date that shall be recorded in the property system is the date the item was received. The depreciation period is the remaining estimated recovery period. Supporting documentation is required to substantiate the asset's estimated FMV and remaining estimated recovery period.

(2) Exchanged Property

(a) If cash is included in the exchange of property, the cost of property acquired shall be increased by the amount of cash consideration surrendered or decreased by the amount of cash consideration received.

(b) If the estimated FMV of the personal property acquired is more readily determinable than the cost or FMV of the personal property surrendered, the cost shall be the fair market value of the personal property acquired.

(c) If the estimated fair market value is not determinable for either asset, the cost of the personal property acquired shall be the cost recorded for the personal property surrendered, net of any accumulated depreciation or amortization.

(d) Any difference between the net recorded amount (recorded cost less accumulated depreciation) of the personal property surrendered and the cost of the personal property acquired shall be recognized as a gain or loss.

(3) Documentation. The PPM shall obtain and file the receiving report, any related transportation documentation, and any documentation justifying the fair market value (FMV) calculation.

h. Foreign Government Provided Equipment (FGPE). FGPE includes items provided by a foreign government/host country or an international organization (e.g., the North Atlantic Treaty Organization), procured with funds from a foreign government/host country or an international organization, or confiscated during a military operation.

(1) The items must meet all of the following criteria to be classified as FGPE:

(a) The personal property is used without reimbursement to the host nation.

(b) DON controls access or use of the personal property.

(c) The use of the personal property is for an unspecified length of time; AND

(d) DON maintains and repairs the personal property.

(2) FGPE that meets the criteria for general personal property should be accounted for and reported in accordance with this instruction.

i. Seized/Forfeited Personal Property. Seized/forfeited personal property is personal property that DON seizes or confiscates as part of its mission. Only the seized property that will remain with the DON for official DON use shall be captured as personal property and recorded into the personal property system. The acquisition value for personal property acquired through seizure/forfeiture shall be recorded at the estimated FMV less any claims at the time of seizure and shall be accounted for in DON's personal property records until the personal property is forfeited, returned, or otherwise liquidated. The estimated FMV at time of seizure/forfeiture should be documented using the Similar Asset/Estimated FMV Worksheet (see Appendix C, enclosure (1)). No financial value shall be recognized for forfeited personal property items that cannot be sold due to legal restrictions and shall be either donated or destroyed. The PPM shall obtain the receiving and transportation documentation.

j. Base Realignment and Closure (BRAC) Personal Property. Personal property received as a result of a BRAC shall be treated in the same manner as transferred-in personal property.

k. Improvements. Improvements represent additional costs to an asset, regardless of funding source. An improvement increases the personal property asset's capacity, size, efficiency, or estimated useful life. Examples may include equipment upgrades and equipment service life extensions.

(1) Recorded Cost for Improvements. Shall include the costs of the improvement plus the costs incurred to bring the improvement to a form and location suitable for its intended use (i.e., ancillary costs). Ancillary costs shall be included in the recorded cost when they are identifiable and considered significant by management.

(2) Capitalized Improvements. Shall be capitalized and depreciated separately from the personal property asset that was improved but shall be linked to the original personal property in the personal property system, regardless of funding source, when the improvement meets the capitalization criteria.

(a) The depreciation activation date shall be the date the item is received (i.e., acceptance date) and the item is placed into service (i.e., the improvement is complete).

(b) The recovery period of capital improvements shall be based on the standard recovery periods provided in paragraph 6b(5)(a), enclosure (1). Depreciation shall be calculated and recorded in accordance with the depreciation instructions noted in paragraph 6a(3)(a), enclosure (1).

(3) Leasehold Improvements. Improvements to capital leased personal property that meet the capitalization criteria (see paragraph 2b(1), enclosure (1)) shall be capitalized and amortized over the shorter of the term of the lease or the estimated remaining life of the lease improvement. Improvements to leased personal property that do not meet the capitalization criteria (i.e., minor or sub-minor personal property improvements) shall **not** be capitalized/amortized but expensed.

(4) Non-Capitalized Improvements. Improvements that do not meet the criteria for capitalization but meet or exceed the minor property threshold shall be recorded in the personal property system and substantiated with documentation.

(5) Repairs Expense. Modifications/alterations to personal property that **do not** increase an asset's capacity, size, efficiency, or estimated useful life (i.e., improve the personal property), regardless of the cost or funding source of the improvement, are defined as repairs and shall be expensed.

1. Bulk Purchases. Personal property that is purchased in large lots (i.e., multiple single items acquired simultaneously) that individually meet the capitalization criteria shall be capitalized and individually recorded in the personal property system in accordance with capitalized personal property policies. Personal property items purchased in bulk that **do not** individually meet the capitalization criteria, but have a per item cost greater than the DoD accountability threshold, shall be recorded individually and maintained in accordance with the minor personal property policies (see paragraph 2b(2), enclosure (1)).

m. Leases. Leases can be either operating or capital based on whether they meet the criteria below. Lease determination requires full knowledge of the terms of the lease and shall be made by the contract authority and provided to the PPM for proper recording in the property system.

(1) Capital Leases for Personal Property

(a) For a lease to be classified as a capital lease, the lease must meet the capitalization threshold (see paragraph 2b(1)(a), enclosure (1)) **and** satisfy at least **ONE** of the following four criteria:

1. The lease transfers ownership of the personal property to the lessee by the end of the lease term.

2. The lease contains an option to purchase the leased personal property at a bargain price.

3. The lease term (non-cancelable portion plus all periods, if any, representing renewals or extensions that can reasonably be expected to be taken) is equal to 75 percent or more of the estimated economic life of the leased personal property.

4. The present value at the beginning of the lease term of the minimum lease payments equals or exceeds 90 percent of the fair market value (FMV) of the leased personal property. The lessee shall compute the present value of the minimum lease payments using the Treasury Average Interest Rate for Marketable Interest-Bearing Debt. The activity can obtain this interest rate for the length of the lease (i.e., lease term) from the Treasury (www.publicdebt.treas.gov). It should be noted that there may not be an applicable interest rate issued by the Treasury for the term of the lease. Therefore, a documented estimate shall be used.

(b) The last two criteria of the paragraph above are **not** applicable when the beginning of the lease term falls within the last 25 percent of the total recovery period of the leased personal property including earlier years of use. Leases not meeting the aforementioned criteria are considered operating leases.

(c) The recorded cost of personal property acquired under a capital lease shall be the lesser of the Net Present Value (NPV) of the lease payments of the leased equipment or the FMV of the asset. The NPV should exclude the portion of payments representing executory costs such as insurance, maintenance and taxes and any service components associated with the lease that are paid to the lessor. If the executory portion of the payment is not known it shall be estimated. If the service component of the payment is not known, it may be necessary to request that information from the contracting office and/or the lessor.

(d) The contracting authority shall compute the NPV of the minimum lease payments using DON's incremental borrowing rate. The lessor's implicit rate shall be used only if both of the following conditions are met:

1. It is feasible for DON to obtain the implicit rate computed by the lessor; **AND**

2. The implicit rate computed by the lessor is less than the Treasury Average Interest Rate for Marketable Interest Bearing Debt.

(e) The depreciation (amortization) activation date shall be the date the lease goes into effect.

(2) Operating Leases for Personal Property. Lease agreements where the net present value of the lease payments is less than the DoD capitalization threshold **or** the lease term is less than two years **or** none of the four capital lease criteria are met, shall be classified as operating leases. Because operating leases for personal property **do not** transfer the risk of ownership to DON, operating leases shall be expensed as incurred and shall not be reported as capital personal property.

(3) Recording of leases in the property system

(a) Lease agreements that have a lease term of less than 2 years, regardless of value, are not recommended to be recorded in a compliant personal property system because they do not meet DoD's accountability requirements (i.e., "useful life" of two years or more).

(b) Operating lease agreements that have lease terms of two years or more and that have a net present value of the lease payments greater than the accountability threshold shall be recorded in a compliant personal

property system. While it is not recommended to record the multiple assets associated with the operating lease agreement due to the costs of maintaining accountability records, activities may record the multiple assets as component property items of the operating lease agreement if desired.

(c) Capital lease agreements shall be recorded in a compliant personal property system **and** each asset under the lease agreement that is greater than the DoD accountability threshold must be accounted for in the property system and managed in accordance with the minor property accountability requirements established by this instruction.

(4) Lease Modifications. Once a lease has been entered into between DON and an outside party, there are five conditions under which it will be necessary to modify the existing lease arrangement: (1) the lease expires, (2) the lease is canceled, (3) the lease terms have been modified, (4) the lease options are exercised or (5) the lease options are not exercised. The property system must be updated to reflect these changes when they occur.

9. PERSONAL PROPERTY END-ITEM DECREASES

a. General Criteria. When personal property is transferred-out, sold, or disposed of, the personal property including the recorded cost, the related accumulated depreciation, and all other relevant information shall be removed from the personal property system. Documentation substantiating these transactions shall be retained for 36 months. *[For USMC only: A copy of the disposal or transfer documentation for all Capitalized Personal Property and all GME shall be forwarded to Headquarters Marine Corps (LFS).]*

b. Damaged, Excess, Impaired, or Obsolete Personal Property. Damaged, excess, impaired, or obsolete personal property shall be recorded at its net realizable value (NRV) when removed from the property system.

(1) Gains/Losses. (Only applicable to WCF activities.) Any difference in the NBV of the personal property asset and the expected NRV shall be recognized as a gain or loss in the period of adjustment. Any further adjustments in value shall be recognized as a gain or loss.

(2) Depreciation. If an asset is determined to be excess or obsolete, the PPM should cease depreciation once the asset ceases to provide any economic benefit and the asset is removed from service. However, depreciation will continue for damaged capitalized personal property that is temporarily removed from service for repair or other reasons.

c. Transferred-Out Personal Property

(1) Transferred-out personal property includes personal property that DON transfers to another DON, DoD, other Federal, or non-Federal entity. The activity shall **NOT** record any gains or losses realized from transfers to Federal and non-Federal entities.

(2) Documentation. The original vendor invoice and completed Form DD 1149, plus any other historical asset records shall be sent to the receiving activity's PPM. Copies of this documentation shall be retained for 36 months after transfer/disposal.

d. Sales of Personal Property. (Only applicable to WCF activities.) As personal property is sold, the actual disposal costs incurred should be recorded in the personal property system. This cost should be offset by estimated cash proceeds only when the proceeds are permitted to be retained and used by DON. Examples of disposal costs for items sold include: fix-up costs, inspections, sampling, testing, transportation, etc. The difference between the net book value (recorded cost less accumulated depreciation) and the amount realized from the sale shall be recorded as a gain or loss in the period the capitalized personal property is sold.

e. Disposals. Personal property that has been identified for permanent removal from service and is not being transferred to another entity for use shall be sent to Defense Reutilization and Marketing Office (DRMO) for disposal.

(1) Documentation. The PPM shall complete one of the following disposal forms depending on the asset's condition:

(a) Form DD 1348-1A (Issue Release/Receipt Document) is used for personal property that is declared obsolete, unfit for performance, or unserviceable through no specific cause or as a consequence of normal use.

(b) Form DD 200 is used for personal property that is damaged/unfit for performance but not through normal use (e.g., vandalism or abuse) or when personal property cannot be found because of loss, destruction, or other reason. This document must be signed by the Commander and retained by the PPM.

(2) Disposal Procedures

(a) The PPM shall request disposition instructions from the appropriate approving authority.

(b) The property and a signed Form DD 1348-1A will be taken to DRMO where the document is stamped/signed to verify receipt. [Note: An unsigned/unstamped (by DRMO) Form DD 1348-1A is not acceptable for retained personal property records.]

(c) The PPM shall remove the personal property from the personal property system using the disposal date recorded on the Form DD 1348-1A indicating receipt of the disposed asset by DRMO.

(d) Periodically, the PPM shall obtain a listing of all assets received by DRMO from his/her activity and compare that listing to activity records to ensure that all items sent to DRMO were properly documented and processed in the property system. The PPM should resolve any errors within 5 business days. The reconciliation records should be maintained in the property records until the next reconciliation.

(3) Excess. For personal property that is still serviceable but is idle or excess:

(a) The asset should be placed in an excess status. It may be moved to a temporary location but the property system must be updated to reflect the change in location and custodian. If the asset is a capital

asset, depreciation should be stopped when the asset ceases to provide any economic benefit and the asset has been removed from service.

(b) Disposition instructions should be requested from the responsible claimant and a Report of Excess Personal Property (Standard Form 120) shall be generated. The SF 120 is used to report excess personal property to the item manager. The item manager will determine the disposition of the asset and notify the owner. The owner of the asset will then prepare a Form DD 1348-1A to execute the disposition instructions received from the item manager.

(c) If the property is not desired by another activity it shall be disposed of in accordance with the procedures outlined above for disposals (see paragraph 9e(2), enclosure (1)).

(4) Property that is Damaged Beyond Economic Repair Through Vandalism/Abusive Treatment or when Personal Property Cannot be Found Because of Loss, Destruction, or Other Reasons (e.g., Stolen, Missing, etc.)

(a) The RO shall submit the Form DD 200 to the PPM for review and to make a determination as to whether further investigation is necessary. Once the investigation (if necessary) is completed, the PPM forwards the document to the Commander for signature and approval. This applies to all personal property except sub-minor property that is not pilferable.

(b) If an asset is determined to be stolen or missing, the PPM may remove the property from the personal property system using the Commander's signature date on Form DD 200 to substantiate the transaction.

(c) For capitalized property, the PPM is required to ensure that the proper financial adjustment (loss) calculation is made by the appropriate personnel for input into general ledger accounting system.

(5) ADP Equipment Disposals. ADP equipment disposals follow the above procedures for other disposals but must also meet additional requirements established by Defense Information Systems Agency (DISA) and addressed under other guidance.

(6) GME Disposals (USMC only). Headquarters Marine Corps (LFS) shall publish supplemental instructions for the disposal of Garrison Mobile Equipment.

(7) Base Realignment and Closure (BRAC) Activities End Item Decreases. For disposition of all BRAC personal property, BRAC policies and procedures guidance issued by the Secretary of Defense should be followed.

ACRONYMS

ADP	Automated Data Processing
BRAC	Base Realignment and Closure
CIP	Construction-in-Progress
CG	Commanding General
CO	Commanding Officer
DD	Department of Defense Forms
DoD	Department of Defense
DON	Department of the Navy
DFAS	Defense Finance and Accounting Service
DPAS	Defense Property Accountability System
DRMO	Defense Reutilization and Marketing Office
FGPE	Foreign Government Provided Equipment
FMO	Office of Financial Operations
FMR	Financial Management Regulation
FMV	Fair Market Value
GFE	Government Furnished Equipment
GME	Garrison Mobile Equipment
GSA	General Services Administration
HQMC	Headquarters Marine Corps
ISMO	Information System Management Office
IMPAC	International Merchant Purchase Agreement Card
LTI	Limited Technical Inspection
NAVCOMPTMAN	Navy Comptroller Manual
NBV	Net Book Value
NDE	National Defense Equipment
NRV	Net Realizable Value
NSN	National Stock Number
OM&S	Operating Materials and Supplies
OMB	Office of Management and Budget
PO	Purchase Order
PPE	Property, Plant and Equipment
PPM	Personal Property Manager
RO	Responsible Officer
T/E	Table of Equipment
UIC	Unit Identification Code
USMC	United States Marine Corps
WCF	Working Capital Fund

GLOSSARY

DEFINITIONS:

1. **Acquisition Cost.** The original purchase, construction or development cost of the personal property, net of any purchase discounts or ancillary costs.
2. **Ancillary Costs.** Costs other than the basic asset acquisition cost that were required to bring the personal property to its form and location suitable to its intended use. These costs should be included for capital assets when they are, in management's opinion, significant and identifiable.
3. **Base Realignment and Closure (BRAC).** The process authorized by Congress to determine which military installations should be closed and/or consolidated to execute the nation's defense strategy.
4. **Bulk Purchases.** Procuring like personal property items in large quantities (i.e., multiple single personal property items acquired simultaneously).
5. **Capital Lease.** Leased property that meets capital lease criteria and capitalization threshold.
6. **Classified Items.** Personal property that requires protection in the interest of national security.
7. **Construction-in-Progress (CIP).** Property that is being developed or manufactured by an activity to eventually be used by the activity in the ordinary course of operations.
8. **Contractor-Acquired Personal Property.** Personal property purchased by a contractor for performing the terms of the contract. This property remains in possession of the contractor until completion of the contract at which time the title to the property returns to the government.
9. **Depreciation.** The accounting process of allocating capitalized personal property costs over time to an expense account in a systematic and rational manner.
10. **Depreciable Base.** The depreciable base for personal property shall equal recorded cost of the item less the net estimated residual value.
11. **Depreciation activation date.** The date depreciation begins. For DON, the date the item is received shall be used.
12. **Donated Personal Property.** Personal property that is received from a non-Federal entity without exchange or payment.
13. **Estimated Residual Value.** The estimated value DON expects to recover after disposing of the capitalized property.
14. **Exchanged Personal Property.** Personal property acquired in a trade of personal property with a non-Federal entity.

15. **Fair Market Value.** The price for which an asset could be bought or sold in an arm's-length transaction between unrelated parties (i.e., between a willing buyer and a willing seller).

16. **Forfeited Personal Property.** Personal property acquired through forfeiture proceedings.

17. **Garrison Mobile Equipment (GME).** HQMC, centrally managed Garrison Personal Property consisting of non-deployable commercially available owned, leased, or otherwise acquired passenger vehicles, cargo vehicles, material handling equipment, engineer equipment, and railway rolling stock, that is used to perform transportation, maintenance and administrative functions of Marine Corps bases, stations, posts, and other activities.

18. **Garrison Personal Property.** Marine Corps owned or leased non-deployable tangible general personal property (i.e., vehicles) that are used to provide general government services or goods in the support of end item development, maintenance, storage, and or in the garrison mission of Marine Corps bases, stations, posts, and other activities.

19. **General Fund.** Funds authorized and appropriated by Congress and apportioned by OMB.

20. **Government Furnished Equipment (GFE).** Personal property owned by DON and provided to a contractor for use.

21. **Impairment.** Recognition that personal property is no longer expected to provide substantive service potential or when a significant reduction occurs in the capabilities, functions or uses of the personal property.

22. **Indirect Costs.** Ancillary costs that are allocable and included in the personal property recorded cost.

23. **Industrial Plant Equipment.** Personal property primarily utilized for the purpose of cutting, grinding, shaping, forming, joining, testing, measuring, heating, treating, or otherwise altering the physical, electrical, or chemical properties of materials, components, or end items.

24. **Leases.** There are two types of leases; capital and operating. Capital Leases meet one or more of the capital lease criteria (see paragraph 8m(1)(a)). Operating Leases are leases that do not transfer the risks of ownership to DON. The following terminology refers to capital leases;

(1) **Bargain Purchase Option.** A lessee's option to purchase leased personal property that is sufficiently lower than the expected fair value of the personal property at the date the option becomes exercisable. At the inception of the lease it is reasonably assured that the option will occur.

(2) **Lease Term.** The fixed non-cancelable term of the lease plus all periods, if any, representing renewal or extension of the lease that reasonably be expected to be taken.

(3) **Lease Recovery Period (Estimated Economic Life).** The estimated remaining period during which the personal property is expected to be economically usable by one or more users, with normal repairs and maintenance, for the purpose for which it was intended at the inception of the lease, without limitation by the lease term.

(4) **Non Cancelable Lease.** A lease that is only cancelable on the occurrence of a remote contingency. Funds not appropriated by Congress, in future years, to cover the lease is considered a remote contingency

(5) **Renewal or Extension of a Lease.** The continuation of a lease agreement beyond the original lease term, including a new lease under which a lessee continues to use the same personal property.

(6) **Implicit Interest Rate.** The discount rate in a lease that, when applied to the minimum lease payments, causes the aggregate present value to be equal to the fair value of the leased personal property to the lessor.

(7) **Incremental Borrowing Rate.** The rate that, at the inception of the lease, DON would have incurred to borrow the funds necessary to purchase the leased personal property on a secured loan, with repayment terms similar to the payment schedule called for in the lease.

(8) **Minimum Lease Payments.** Payments that DON is obligated to make, or can be expected to make, in connection with leased personal property.

25. **Net Book Value (NBV).** The original cost of a capital asset minus the accumulated depreciation recorded to date.

26. **Net Realizable Value (NRV).** Fair market value less the cost to sell or dispose of the asset.

27. **Pilferable Personal Property Items.** Portable items that could easily be converted to personal use and are (1) critical to fulfilling the activity's mission/business objective and (2) hard to repair or replace.

28. **Recorded Costs.** The amount paid to bring the property to its form and location suitable for its intended use.

29. **Recovery Period (Depreciation Period/Estimated Useful Life/Shelf Life).** The estimated duration of time that a personal property item can provide benefit to an entity's ongoing operations.

30. **Refurbishments.** The complete overhaul of personal property that extends the life of the personal property. This cost is capitalized if the cost is greater than or equal to the capitalization criteria (see paragraph 2b(1), Enclosure (1)) and the refurbishment extends the life of the personal property by at least two years.

31. **Repairs.** Changes in the ordinary course of operations to maintain personal property in a working condition. Repairs do not generally extend the useful life of the personal property and are expensed when incurred.

32. **Sensitive Personal Property Items.** Personal property items requiring special protection from disclosure which could cause embarrassment, compromise or threat to the security of the sponsoring entity.

33. **Pushed/Sponsored Owned Personal Property.** Any personal property purchased by a higher entity (such as a Major Claimant) and forwarded (or "pushed") to a lower level (such as an activity).

34. **System Personal Property.** Personal property items organized together to perform a specific function or task. The completion of the function or task would not occur if the personal property items are used separately.

35. **Transferred Personal Property.** Personal property that DON receives from (transferred-in) or provides to (transferred-out) another Federal entity without providing/receiving monetary funds in return.

36. **Working Capital Fund (WCF).** Revolving funds used by activities that charge their customers stabilized rates and prices to cover the cost of goods/services provided.

SIMILAR ASSETS/ESTIMATED FMV WORKSHEET

Purpose: To document the estimated recorded cost and date for personal property items lacking proper substantiating documentation. Required for unsupported personal property recorded in the personal property system. This worksheet, when properly completed, serves as a substitute for original acquisition documentation and should be used when all attempts to locate actual documentation have been exhausted.

A. Personal Property General Information:

UIC: _____
Command: _____
Responsible Officer (Hand Receipt Holder): _____
Document Number: _____
Nomenclature/Location: _____
National Stock Number (NSN): _____
Serial Number: _____
Manufacturer: _____
Bar Code Number: _____
Method of Acquisition:
Purchase_____ Requisition_____ Transfer_____ Donated_____ Found_____

B. Similar Asset Comparison:

Location of similar asset: _____
Command owning similar asset: _____
Similar Asset Comparison:

	<u>Personal Property Asset</u>	<u>Similar Asset</u>
Nomenclature:	_____	_____
NSN:	_____	_____
Serial Number:	_____	_____
Manufacturer:	_____	_____
Serial Number:	_____	_____
Model:	_____	_____
Model Year:	_____	_____
Description of Function:	_____	_____
Recorded Cost:	_____	_____
Depreciation Activation Date:	_____	_____

C. Determined Recorded Cost:

1. If the assets are similar, obtain copies of the acquisition documentation for the similar asset and attach to this worksheet. Record the following information below:

Acquisition Cost: _____
Other Costs (see paragraph 6a(2), enclosure(1)): _____
Total: _____

SIMILAR ASSETS/ESTIMATED FMV WORKSHEET, cont'd

2. If a similar asset can not be located, estimate the fair market value for the personal property as of the date acquired. Use one or more of the following sources in determining a fair market value:

<u>Source</u>	<u>Company</u>	<u>Contract Nbr.</u>	<u>Acq. Cost</u>	<u>Date</u>
FEDLOG Price:	FEDLOG	N/A		
GSA Schedule Price:				
Vendor Quote:				

3. Record the following information below:

Estimated FMV:

Other Costs (see paragraph 6a(2), enclosure(1)):

	2019	2020	2021
Revenue	100	100	100
Operating Expenses	70	70	70
Operating Income	30	30	30
Non-Operating Income	0	0	0
Income Before Taxes	30	30	30
Taxes	10	10	10
Net Income	20	20	20
Total	100	100	100

D. Recovery Period:

E. Determined Depreciation activation date:

1. If the assets are similar, obtain copies of the acquisition documents for the similar asset. Record the information in number 2 below.

2. If substantiating acquisition documentation is not available, obtain the depreciation activation date in the following order:

	Document Nbr.	Date
Source:		
Transfer Date on DD 1149 for transfers:		
Shipping Date:		
Inspection Date:		
Date Found:		
Determined Depreciation Activation Date:		

F. Documentation Requirements:

File this document as the original acquisition documentation in accordance with DON Personal Property Policies and Procedures Manual. The following documentation should be included if available:

Similar Asset: Procurement Documentation, Invoice, and Receiving Report

Comparable Value Research: Printout of FEDLOG Entry or
 Copy of relevant GSA Schedule or
 Copy of vendor quote

Depreciation activation date: DD 1149

Shipping Invoice

Inspection Certification

Copy of physical inventory (during which the personal property was found)

Certification:

I certify that the personal property information recorded above is accurate to the best of my knowledge.

Name	Activity	Signature	Date
------	----------	-----------	------

DIRECTIONS FOR APPENDIX C (SIMILAR ASSETS/ESTIMATED FMV WORKSHEET)

Purpose:

To estimate the recorded cost and date of a personal property item when the original documentation cannot be obtained. This worksheet serves as a substitute for the original documentation that substantiates the recorded cost and date, both necessary for financial reporting purposes.

Section A (Personal Property General Information):

This information is required to accurately identify the asset. This information should be obtained through physical examination, observation, and inquiries with command personnel.

Section B (Similar Asset Comparison):

This section allows the activity to estimate the recorded cost (for unsupported personal property recorded in the personal property system) and the recovery period (for capitalized personal property only) of the personal property item. It is important that every effort is made to ensure that the similar asset is a close match.

Once a similar asset is found, asset documentation (if available) should be obtained to substantiate the recorded cost and date.

If a similar asset cannot be located, Step 2 of Section C should be completed.

Section C (Determined Recorded Cost):

If copies of the acquisition documentation of the similar asset are available, record the recorded cost and recovery period in Step 1.

If the similar asset has a different acquisition date from the asset in question, the recorded cost must be adjusted for the effects of inflation. To do this: (1) determine the Consumer Price Index (CPI) for both the date of acquisition of the similar asset and the asset in question; (2) multiply the recorded cost of the similar asset by the CPI for the year the asset in question was acquired, divided by the CPI for the year in which the similar asset was acquired.

Example: Assume that an asset was acquired in 1995, but has unknown acquisition/recorded costs. A similar asset is found, which was acquired in 1998 with a recorded cost of \$250,000. The CPI for 1995 was 120 and was 150 in 1998. The estimated recorded cost would be calculated as follows:

$$\$250,000 \times 120/150 = \$200,000$$

If a similar asset cannot be located, estimate the fair market value of the asset by using other sources of pricing information (e.g., FEDLOG, GSA acquisition schedules, vendor quotes). Obtaining this information may require consultation with other activity personnel (e.g., Comptroller, Contracting Officer, Personal Property Managers). This information should be entered in Step 2.

Document the source of the estimated fair market value information and record the value amount and recovery period in Step 3 of this section.

Section D (Recovery Period):

Document the recovery period for the asset based upon the guidance in this instruction.

Section E (Determined Depreciation Activation Date):

If acquisition documentation for the similar asset was available, record the depreciation activation date on the lines listed in Step 2.

If substantiating documentation could not be obtained for the similar asset, use the year the asset was manufactured as the depreciation activation date (manufacture year can usually be found on the back of the asset). If the manufacture year is not available, the depreciation activation date shall be determined by judgmentally selecting the most appropriate date from Step 2.

Section F (Documentation Requirements):

File the worksheet and all the supporting documentation in accordance with paragraph 5b of this instruction.

Certification:

The preparer of this worksheet shall sign and date this worksheet to certify the accuracy of the information.

ESTIMATED RESIDUAL VALUE WORKSHEET

Subject: Estimated Residual Value Calculation

FOR USE WITH CAPITALIZED PERSONAL PROPERTY ONLY

Activity Name: _____

Asset Nomenclature: _____

Manufacturer's Name: _____ Model No: _____

Serial No.: _____ Barcode: _____

Acquisition Cost: _____ Ancillary Costs: _____

Total Recorded Cost: _____

Estimated Residual Value \$: _____ Estimated Ttl Disposal Costs: _____

Net Estimated Residual Value \$: _____

% of Recorded Cost = _____%

Receipt/Activation Date: _____ Depreciable Life (yrs): _____

Document below how the Net Estimated Residual Value (see paragraph 6a(3)(c),
enclosure (1)) was determined:

Signature

Preparer

Date

Supervisor

Date

**SUGGESTED DIRECTIONS FOR COMPLETING THE PERSONAL PROPERTY ESTIMATED RESIDUAL
VALUE WORKSHEET**

Purpose:

To calculate the estimated residual value of personal property that requires capitalization. This worksheet needs to be completed when a personal property item meets the capitalization criteria noted in 2b(1), enclosure (1) of the DON Personal Property Policies and Procedures Manual.

The estimated residual value is the approximate amount the activity will recover upon the sale or disposal of the personal property item, less estimated disposal costs at the end of its useful life. If the calculated estimated residual value, less estimated disposal costs, is **LESS THAN 10 PERCENT** of the personal property's recorded cost, the estimated residual value shall be **ZERO**. If the calculated estimated residual value, less estimated disposal costs, is **GREATER THAN OR EQUAL TO 10 PERCENT** of the personal property's recorded cost, the preparer shall ensure the calculated estimated residual value is recorded in the personal property system.

Procedures:

The preparer of this worksheet shall obtain the recorded cost, depreciation activation date, and type of asset from the original acquisition documentation. Physical examination of the personal property item can be used to obtain the personal property's description and bar code number. Consultation with a Personal Property Manager may be necessary if the personal property has not received a bar code number when this worksheet is prepared.

The preparer may need to consult with other activity personnel (e.g., Contracting Officer, Comptroller, Personal Property Manager) to obtain an estimated residual value and estimated disposal costs. Calculate the net estimated residual value in the space located on this worksheet and record the information in the appropriate spaces. Compare the net estimated residual value with the recorded cost.

The preparer shall sign and date this worksheet. A supervisor shall also sign this worksheet to ensure the accuracy of the calculation. The preparer shall include all documentation that supports the amounts recorded on this worksheet.

LEASE DETERMINATION WORKSHEET

Requisition Number: _____

Purchase Order/Contract Number: _____

Description of Leased Property: _____

PART I - Operating Lease Determination

Answer the following applicable questions and follow the directions provided.

Yes No

☐☐

1. Is the total lease term **less** than 2 years? (Lease term includes fixed period and options.)

If the answer is **yes**, the lease is automatically classified as an operating lease. Complete Part III of **Lease Determination Worksheet**, place the **Lease Determination Worksheet** in the file, and forward a copy of the **Lease Determination Worksheet** to the PPM.

If the answer is **no**, continue to number 2.

Yes No

☐☐

2. Are the total lease payments for the leased equipment (not including executory costs and service components) less than the capitalization threshold established by DoD?

If the answer is **yes**, the lease is classified and recorded as an operating lease. Complete Part III of the **Lease Determination Worksheet**; place the **Lease Determination Worksheet** in the file, and forward copy of the **Lease Determination Worksheet** to the PPM.

If the answer is **no**, then continue to Part II of the Lease Determination Worksheet. Information regarding future minimum lease payments shall be captured for footnote disclosure requirements. Complete Part III of the **Lease Determination Worksheet** and Part I of the **Data Element Worksheet**; place the **Lease Determination Worksheet** and the **Data Element Worksheet** in the file and forward copies to the PPM.

LEASE DETERMINATION WORKSHEET, cont'd

DON's Policy Regarding Leases

Lease Term	NPV of Total Lease Payments	Capital Lease Criteria Met	Lease Type	Financial Statement Reporting Requirements
< 2 years	N/A	No	Operating	None
> 2 years	< \$100,000	Yes	Operating	None
≥ 2 years	≥ \$100,000	No	Operating	Future Minimum Lease Payments
≥ 2 years	≥ \$100,000	Yes	Capital	Asset property and offsetting capital lease liability, Future Minimum Lease Payments (<i>funded & unfunded</i>), Imputed interest, Executory costs

PART II - Capital Lease Determination

Answer all of the following questions. If the answer to one or more of the following questions is yes, the lease shall be classified as a capital lease.

- | | | |
|--|---|--|
| <p>Yes</p> <input type="checkbox"/> | <p>No</p> <input type="checkbox"/> | 1. Does the lease transfer ownership of property to the DON activity at the end of the lease term? |
| <input type="checkbox"/> | <input type="checkbox"/> | 2. Is there an option to purchase the property at a bargain price? |

If the answer is **"yes"** to either of the above questions, complete Part III below and Part I, Part II (section C and D only), and Part III of the **Data Element Worksheet**; place the **Lease Determination Worksheet** and the **Data Element Worksheet** in the file and forward copies of each to the PPM. Questions 3 and 4 do not need to be answered as the lease has already been determined to be capital. If the answer is **"no"** to both of the above questions, continue on to questions 3 and 4 below.

- | | | |
|--|---|---|
| <p>Yes</p> <input type="checkbox"/> | <p>No</p> <input type="checkbox"/> | 3. Is the lease term <u>equal to or greater than 75 percent</u> of the estimated economic life of the personal property? |
| <input type="checkbox"/> | <input type="checkbox"/> | 4. Is the net present value of rental and other lease payments excluding executory costs (i.e., insurance and maintenance cost) and any service components <u>equal to or greater than 90 percent</u> of the fair market value of the leased personal property. |

If the answer is **"yes"** to question 3 or 4, complete Part II of the **Data Element Worksheet**, Section A, to document the answer to criteria 3 and Section B to document the answer to criteria 4. (Note: Criteria 3 and 4

above do not apply if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the personal property, including earlier years of use. See Section A of Part II of the **Data Element Worksheet** for determination.)

(For specific assistance in properly calculating the net present value of rental and other minimum lease payments, Contracting Officers are directed to the point of contact designated by the Head of the Contracting Office servicing the DON activity.)

If all of the answers to the above questions are no, the lease shall be classified as an operating lease. Complete Part III of the **Lease Determination Worksheet** and Part I, Part II (A and B), and Part III of the **Data Element Worksheet**; place the **Lease Determination Worksheet** and **Data Element Worksheet** in the file and forward copies of each to the PPM.

PART III - Lease Determination and Distribution

Determination: Operating Lease: ☐ Capital Lease: ☐

Signature of
Preparer: _____ Date: _____

Title: _____ Telephone #: _____

Distribution:

1. File

2. Distribute copies of the **Lease Determination Worksheet** and **the Data Element Worksheet** to the PPM.

INSTRUCTIONS FOR COMPLETING THE LEASE DETERMINATION WORKSHEET

Purpose:

This worksheet shall be used whenever an activity leases personal property. This worksheet documents the determined lease classification (e.g. capital or operating).

Procedures:

This worksheet will be completed by the contracting officer at the time of contract award. The preparer shall obtain the lease documentation to record the requisition number, purchase order/contract number and description of leased personal property.

Part I (Operating Lease Determination):

Refer to lease documentation to answer the questions asked in Part I. Question 1 deals with the length of the lease and Question 2 deals with the net present value of the lease payments (excluding executory costs).

If the preparer answers "Yes" to Questions 1 or 2, the lease is automatically considered an operating lease; Part II shall not be completed, and the preparer shall complete Part III.

NOTE: Part II shall be completed only if the preparer answers "No" to Questions 1 and 2. If it is necessary to complete Part II due to the responses in Part I and if the answer to any of the four questions in Part II is "Yes," then the lease is capital.

Part II (Capital Lease Determination):

The preparer shall obtain a copy of the **Data Element Worksheet** (Appendix F of the DON Personal Property Policies and Procedures Manual) to document the answers completed in Part II of the **Lease Determination Worksheet**.

To answer Questions 1 and 2, the preparer shall review the lease documentation to determine if the lease "transfers ownership" or provides an option for a "bargain purchase option." If the answer to one or both questions is "Yes," the lease is capital. The preparer shall complete Part III of the **Lease Determination Worksheet** and complete Parts I and III of the **Data Element Worksheet**. Upon completion of these worksheets, the preparer shall forward copies to the PPM for inputting into the personal property system.

To answer Questions 3 and 4, the preparer shall use steps outlined in Part II, Section A of the **Data Element Worksheet**, which will provide documentation supporting the answer to Question 3 of Part II of the **Lease Determination Worksheet**.

Section B of Part II of the **Data Element Worksheet** will provide documentation supporting the answer to Question 4 of Part II of the **Lease Determination Worksheet**.

Refer to the steps on completing Part II of the **Data Element Worksheet** listed below.

Part III (Lease Determination, and Distribution):

The preparer shall check the box that corresponds to the type of lease (e.g. capital or operating) the activity entered into for the personal property. The preparer shall also sign and date this worksheet and distribute to the parties listed on the worksheet.

DATA ELEMENT WORKSHEET

Requisition Number: _____

Purchase Order/Contract Number: _____

Description of Leased Personal Property: _____

PART I. FUTURE MINIMUM LEASE PAYMENTS (CAPITAL OR OPERATING)

Minimum Lease payments are due under the terms of the lease for future years. For example, if the DON enters into a 15-year lease in fiscal year (FY) 2000 for \$10,000 per year, the future minimum lease payments are: *(Note: The current year amount was expensed in FY 2000, therefore it is not necessary to include this amount in the future minimum lease payments.)*

<u>Fiscal Year</u>	<u>\$ Amounts</u>	<u>Fiscal Year</u>	<u>\$ Amounts</u>	<u>Fiscal Year</u>	<u>\$ Amounts</u>
2001	\$10,000	2006	\$10,000	2011	\$10,000
2002	\$10,000	2007	\$10,000	2012	\$10,000
2003	\$10,000	2008	\$10,000	2013	\$10,000
2004	\$10,000	2009	\$10,000	2014	\$10,000
2005	\$10,000	2010	\$10,000		
				TOTAL	\$140,000

Enter the value of the future minimum lease payments for the entire remaining lease term (include options years). Do not include fiscal year of award.

<u>Fiscal Year</u>	<u>Gross Minimum Lease Payments</u>	<u>Executory Costs</u>	<u>Fiscal Year</u>	<u>Gross Minimum Lease Payments</u>	<u>Executory Costs</u>
1. _____	_____	_____	11. _____	_____	_____
2. _____	_____	_____	12. _____	_____	_____
3. _____	_____	_____	13. _____	_____	_____
4. _____	_____	_____	14. _____	_____	_____
5. _____	_____	_____	15. _____	_____	_____
6. _____	_____	_____	16. _____	_____	_____
7. _____	_____	_____	17. _____	_____	_____
8. _____	_____	_____	18. _____	_____	_____
9. _____	_____	_____	19. _____	_____	_____
10. _____	_____	_____	20. _____	_____	_____

Attach description of the lease to this worksheet (*term, agreements, etc.*).¹

¹ Disclose the level of the agency's funding commitments, including but not limited to, the major assets' categories and such lease terms as the existence and terms of renewal options, escalation clauses, restrictions imposed by lease agreements, contingent rentals and the amortization period as described in the lease agreement.

DATA ELEMENT WORKSHEET, cont'd

PART II - Capital Lease Information

A. Determine the remaining estimated recovery period and the lease term period.

1. Enter the estimated economic life at the inception of the lease: _____

2. Enter the lease term: _____

3. Enter the total estimated economic life of the personal property,
including earlier years of use: _____

4. If leased personal property is not new, is the remaining economic life at the inception of the lease within the last 25 percent of the total estimated economic life (i.e., remaining economic life < 25 percent of total estimated economic life of the personal property including earlier years of use)? If yes then only evaluate this lease using the first two capitalization criteria (Questions 1 or 2) on Part II of the Lease Determination Worksheet . If no , then evaluate using criteria 3 and 4.	Yes	No
	<input type="checkbox"/>	<input type="checkbox"/>

5. Is the lease term greater than or equal to 75 percent of the remaining estimated economic life of the asset? (The answer shall be the same as criteria number 3 on the Lease Determination Worksheet.)	<input type="checkbox"/>	<input type="checkbox"/>
---	--------------------------	--------------------------

B. Determine the present value of rental and other minimum lease payments.

(Note: This section is N/A if the remaining economic life is within the last 25 percent of the total estimated economic life of the personal property including earlier years of use (i.e., answer to question number 4, Section A is **yes**)).

1. Enter the total amount of rental and other minimum lease payments. (Do not include executory costs). _____

2. Enter the scheduled payment terms and amount:
(Do not include executory costs)
Illustration: \$833.33 per month, due at the beginning of the Period (annuity due); or \$10,000.00 per year due at the end of the period (ordinary annuity). _____

3. Enter the scheduled payment periods:
Illustration: 10 years with 12 payments per year = 120 periods. _____

4. Enter the lesser of the Treasury's interest rate, or the lessor's interest rate in effect over the life of the lease. _____

5. Compute the net present value of rental and other minimum lease payments. (Make sure you use the correct present value table or calculation -"annuity due "or "ordinary annuity ") _____

DATA ELEMENT WORKSHEET, cont'd

6. Enter the fair market value of the leased personal property.
(Maintain supporting documentation on how this was calculated/
determined.) _____

7. Is the net present value of the rental and other minimum
lease payments equal to or greater than 90 percent
of the fair market value of the leased personal property?
(The answer shall be the same as criteria number 4 on the
Lease Determination Worksheet.)

Yes No

<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------

C. Determine the amount of the future lease payments that are funded and unfunded¹.

1. Enter the future minimum lease payments that are funded. _____

2. Enter the future minimum lease payments that are unfunded. _____

D. Determine the proper amortization period.

Yes No

1. Did the lease meet capitalization criteria number 1 or 2
in Part II of the Lease Determination Worksheet?
If **yes**, the asset is amortized over the estimated economic
life of the asset. Enter the estimated economic life of
the asset, and do not answer the next question. _____

<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------

2. Did the lease meet capitalization criteria number 3 or 4
in Part II of the **Lease Determination Worksheet**?
If **yes**, the asset is amortized over the lease term or
estimated economic life of the asset, whichever is less.
Enter the lease term or life of the asset, whichever is
less. _____

<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------

PART III - Signature

Signature of _____

Preparer: _____ Date: _____

Title: _____ Telephone #: _____

Distribution:

1. File

2. If Part II of the **Lease Determination Worksheet** is completed, distribute
copies of the **Lease Determination Worksheet** and the **Data Element Worksheet** to
the PPM. (If Part II of the **Lease Determination Worksheet** is not completed,
this worksheet is not prepared and only a copy of the **Lease Determination
Worksheet** is distributed to the PPM.)

¹ Per OMB Circular No. A-11 33.4, all capital leases are required to be fully
funded covering the present value of all minimum lease payments for the
length of the lease term prior to entering into the lease agreement.

INSTRUCTIONS FOR COMPLETING THE DATA ELEMENT WORKSHEET

Purpose:

This worksheet shall be prepared when an activity enters into any lease agreement for personal property that is for 2 or more years and greater than the DoD capitalization threshold. When completed, this worksheet will provide information on future minimum lease payments and provide documentation supporting the proper lease classification (capital or operating).

Part I (Future Minimum Lease Payments):

NOTE: This part shall be prepared, regardless of the type of lease the activity entered into (unless the answer to Questions 1 or 2 is "Yes" on the **Lease Determination Worksheet**). The future minimum lease payments of the leased equipment shall be reported on an annual basis. If the lease payments are made on a monthly basis, the preparer shall multiply the lease payment amount by 12 to obtain the annual lease payment.

The preparer can obtain the lease payments (weekly, monthly, annually, etc.) by referring to the lease documents. A lease payment schedule may be included with the lease documents and could be used to help complete Part I.

Upon completion of Part I, the preparer shall include all documentation supporting the minimum lease payments with the **Data Element Worksheet**.

Part II (Capital Lease Information):

If the preparer determined that the lease was an operating lease, Part II does not need to be completed. The preparer needs to sign the **Data Element Worksheet**, provide the requested information in Part III, and distribute to the parties listed.

If the preparer determined that the lease was a capital lease because of a transfer of ownership upon the completion of the lease clause and/or a bargain purchase option, only Sections C and D of Part II need to be completed. The preparer only needs to sign the **Data Element Worksheet**, provide the requested information in Part III, and distribute to the parties listed. The preparer may need to consult with other activity personnel (e.g., Comptroller, Contracting Officer, Personal Property Manager) to determine the amount of the future lease payments that are funded and unfunded.

However, if the estimated recovery period and/or minimum lease payment tests need to be completed to determine whether the lease is a capital or operating lease, Parts II and III need to be completed.

Section A of Part II documents how the estimated economic life and the lease term period were determined, which will answer Question 3 of Part II of the **Lease Determination Worksheet**. Section B of Part II documents how the present value of rental and other minimum lease payments was determined, which will answer Question 4 of Part II of the **Lease Determination Worksheet**.

To complete Section A of Part II, the preparer shall refer to the lease documentation for the requested information. If the remaining and total estimated economic lives are not noted in the lease documentation, the

preparer may need to consult with other activity personnel (e.g., Comptroller, Contracting Officer) and/or other resources (e.g., DPAS catalog).

After obtaining the economic life and lease term information, make the necessary calculations requested in Section A.¹

The preparer will need to consult with the lease documentation to obtain the monthly/annual lease payments, the number of monthly/annual payments, fair market value of the personal property, and the lessor's interest rate. The preparer will need to consult with other activity members (e.g., Contracting Officer, Comptroller) to obtain the Treasury interest rate. Enter the information in the proper spaces on the worksheet.

To calculate the net present value of rental and minimum lease payments of the lease equipment, the preparer shall make sure the correct present value table is used. If the activity makes lease payments at the beginning of a period, use the "Present Value of an Annuity Due of \$1" table, and if the activity makes lease payments at the end of a period, use the "Present Value of an Ordinary Annuity of \$1" table.

To obtain the proper present value factor, the preparer finds the proper interest rate (vertical) and number of payments (monthly, yearly, etc.) [horizontal] on the table. The point where the two lines intersect is the proper present value factor needed to complete the calculation.

To calculate the net present value of the minimum lease payments of the leased equipment, the preparer multiplies the lease payment (without executory costs or service components) by the present value factor. Compare the calculation with the fair market value of the leased personal property. If the net present value of the minimum lease payments is greater than or equal to 90 percent of the fair market value of the leased personal property, the lease is classified as a capital lease.

Part III (Authorization):

The preparer shall sign and provide the applicable information after completing the applicable sections in Parts I and II.

¹ If the remaining estimated economic life is less than 25% of the total estimated economic life of the asset, only capital lease criteria 1 and 2 are applied to determine the classification of the lease as operating or capital. In this case, if the lease does not contain a bargain purchase option, or transfer ownership upon conclusion of the lease, then the lease is automatically an operating lease.

1 August 2001

PRESENT VALUE OF AN ORDINARY ANNUITY OF \$1

This table shows the present value of an ordinary annuity of \$1 at various interest rates and for various rents. The table may be used to find the present value of an ordinary annuity of any dollar amount by multiplying the dollar amounts of the rents by the factor corresponding to the appropriate interest rate (i) and the number of rents (n).

N	3%	4%	5%	6%	8%	10%	12%	16%
1	0.9709	0.9615	0.9524	0.9434	0.9259	0.9091	0.8929	0.8621
2	1.9135	1.8861	1.8594	1.8334	1.7833	1.7355	1.6901	1.6052
3	2.8286	2.7751	2.7232	2.6730	2.5771	2.4869	2.4018	2.2459
4	3.7171	3.6299	3.5460	3.4651	3.3121	3.1699	3.0373	2.7982
5	4.5797	4.4518	4.3295	4.2124	3.9927	3.7908	3.6048	3.2743
6	5.4172	5.2421	5.0757	4.9173	4.6229	4.3553	4.1114	3.6847
7	6.2303	6.0021	5.7864	5.5824	5.2064	4.8684	4.5638	4.0386
8	7.0197	6.7327	6.4632	6.2098	5.7466	6.3349	4.9676	4.3436
9	7.7861	7.4353	7.1078	6.8017	6.2469	5.7590	5.3283	4.6065
10	8.5302	8.1109	7.7217	7.3601	6.7101	6.1446	5.6502	4.9332
11	9.2526	8.7605	8.3064	7.8869	7.1390	6.4951	5.9377	5.0286
12	9.9540	9.3851	8.8633	8.3838	7.5361	6.8137	6.1944	5.1971
13	10.6350	9.9856	9.3936	8.8527	7.9038	7.1034	6.4235	5.3423
14	11.2961	10.5631	9.8986	9.2950	8.2442	7.3667	6.6282	5.4675
15	11.9379	11.1184	10.3797	9.7122	8.5595	7.6061	6.8109	5.5755
16	12.5611	11.6523	10.8378	10.1059	8.8514	7.8237	6.9740	5.6685
17	13.1661	12.1657	11.2741	10.4773	9.1216	8.0216	7.1196	5.7487
18	14.3238	13.1339	12.0853	11.1581	9.6036	8.3649	7.3658	5.8775
19	14.3238	13.1339	12.0853	11.1581	9.6036	8.3649	7.3658	5.8775
20	14.8775	13.5903	12.4622	11.4699	9.8181	8.5136	7.3694	5.9288
21	15.4150	14.0292	12.8212	11.7641	10.0168	8.6487	7.5620	5.9731
22	15.9369	14.4511	13.1630	12.0416	10.2007	8.7715	7.6446	6.0113
23	16.4436	14.8568	13.4886	12.3034	10.3711	8.8832	7.7184	6.0442
24	16.9355	15.3470	13.7986	12.5504	10.5288	8.9847	7.7843	6.0726
25	17.4132	15.6221	14.0939	12.7834	10.6748	9.0770	7.8431	6.0971
30	19.6004	17.2920	15.3725	13.7648	11.2578	9.4269	8.0552	6.1772
50	25.7298	21.4822	18.2559	15.7619	12.2335	9.9148	8.3045	6.2463

1 August 2001

PRESENT VALUE OF AN ANNUITY DUE OF \$1

This table shows the present value of an annuity due of \$1 at various rates of interest and for various numbers of rents. The table may be used to find the present value of an annuity due of any dollar amount by multiplying the dollar amount of the rents by the appropriate factors corresponding to the interest rate (i) and the number of rents (n).

N	3%	4%	5%	6%	8%	10%	12%	16%
1	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
2	1.9709	1.9615	1.9524	1.9434	1.9259	1.9091	1.8929	1.8621
3	2.9135	2.8861	2.8594	2.8334	2.7833	2.7355	2.6901	2.6052
4	3.8286	3.7751	3.7232	3.6730	3.5771	3.4869	3.4018	3.2459
5	4.7171	4.6299	4.5460	4.4651	4.3121	4.1699	4.0373	3.7982
6	5.5797	5.4518	5.3295	5.2124	4.9927	4.7908	4.604	4.2743
7	6.4172	6.2421	6.0757	5.9173	5.6229	5.3553	5.1114	4.6847
8	7.2303	7.0021	6.7864	6.5824	6.2064	5.8684	5.5638	5.0386
9	8.0197	7.7327	7.4632	7.2098	6.7466	6.3349	5.9676	5.3436
10	8.7861	8.4353	8.1078	7.8017	7.2469	6.7590	6.3283	5.6065
11	9.5302	9.1109	8.7217	8.3601	7.7101	7.1446	6.6502	5.8332
12	10.2526	9.7605	9.3064	8.8869	8.1390	7.4951	6.9377	6.0286
13	10.9540	10.3851	9.8633	9.3838	8.5361	7.8137	7.1944	6.1971
14	11.6350	10.9857	10.3936	9.8527	8.9038	8.1034	7.4235	6.3423
15	12.2961	11.5631	10.8986	10.2950	9.2442	9.3667	7.6282	6.4675
16	12.9379	12.1184	11.3797	10.7123	9.5595	8.6061	7.8109	6.5755
17	13.5611	12.6523	11.8378	11.1059	9.8514	8.8237	7.9740	6.6685
18	14.1661	13.1657	12.2741	11.4773	10.1216	9.0216	8.1196	6.7487
19	14.7535	13.6593	12.6896	11.8276	10.3719	9.2014	8.2497	6.8178
20	15.3238	14.1339	13.0853	12.1581	10.6036	9.3649	8.8365	6.8775
21	15.8775	14.5903	13.4622	12.4699	10.8182	9.5136	8.4694	6.9288
22	16.4150	15.0292	13.8212	12.7641	11.0168	9.6487	8.5620	6.9731
23	16.9369	15.4511	14.1630	13.0416	11.2007	9.7715	8.6446	7.0113
24	17.4436	15.8568	14.4886	13.3034	11.3711	9.8832	8.7184	7.0442
25	17.9355	16.2470	14.7986	13.5504	11.5288	9.9847	8.7843	7.0726
30	20.1885	17.9837	16.1411	14.5907	12.1584	10.3696	9.0218	7.1656
50	26.5017	22.3415	19.1687	16.7076	13.2122	10.9063	9.3010	7.2457